

Message Text

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ACTION NEA-06

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TO SECSTATE WASHDC 3625

INFO AMEMBASSY BEIRUT

AMEMBASSY JIDDA

S E C R E T CAIRO 2504

LIMDIS

EO 11652: GDS

TAGS: BEXP, EG

SUBJECT: PROPOSED WHEAT SALE TO EGYPT

1. RISING WORLD COMMODITY PRICES ARE COMPOUNDING EGYPT'S ECONOMIC PROBLEMS. THE RECENT SHARP INCREASE IN WORLD PRICES FOR WHEAT IS PARTICULARLY BURDENSOME SINCE EGYPT CURRENTLY IMPORTS APPROXIMATELY 2.5 MILLION TONS OF WHEAT PER YEAR IN ADDITION TO 600,000 TONS OF WHEAT FLOUR. EGYPT IS PRESENTLY CONSUMING WHEAT HARVESTED LOCALLY LAST MAY AND HAS APPARENTLY MADE SOME OTHER SMALL PURCHASES FROM EUROPEAN SOURCES IN RECENT MONTHS. TO COVER THE BALANCE OF THE COMING YEAR'S REQUIREMENTS, GOE RECENTLY SENT MISSIONS TO EUROPE AND TO AUSTRALIA TO DISCUSS ADDITIONAL PURCHASES. WE UNDERSTAND THAT AUSTRALIANS MAY SELL EGYPT ADDITIONAL ONE MILLION TONS FOR DELIVERY BEGINNING IN JANUARY OR FEBRUARY, BUT MISSION TO EUROPE WAS NOT SUCCESSFUL.

2. USINT HAS BEEN APPROACHED INFORMALLY BY CHAIRMAN OF NATIONAL BANK AND BY CHAIRMAN OF COMMODITY SUPPLY
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ORGANIZATION. BOTH ASKED IF THERE WERE ANY POSSIBILITY

FOR EGYPT PURCHASING ONE AND ONE-HALF MILLION TONS FROM UNITED STATES UNDER CCC 3-YEAR CREDIT TERMS. IN CONSIDERING THIS REQUEST, BELIEVE WE SHOULD TAKE COGNIZANCE OF CERTAIN POLITICAL/ECONOMIC TRENDS NOW TAKING PLACE IN EGYPT.

3. DURING RECENT WEEKS, SADAT AND MINISTER OF FINANCE, ECONOMY AND FOREIGN TRADE HEGAZI HAVE CONDUCTED CAMPAIGN LAYING GROUNDWORK FOR LIBERALIZATION AND OPENING UP OF EGYPTIAN ECONOMY. SOME MODEST STEPS HAVE BEEN TAKEN TOWARDS PARTIAL DEVALUATION OF THE EGYPTIAN POUND AND ENCOURAGEMENT OF WESTERN INVESTMENT. PAPERS ARE OPENLY DISCUSSING POSSIBILITIES FOR DEVALUATION OF CURRENCY, CREATING INCENTIVE FOR PRIVATE SECTOR, SELLING SHARES IN PUBLIC COMPANIES TO PRIVATE INDIVIDUALS, AND EVEN FOR ESTABLISHING A STOCK EXCHANGE. IT APPEARS THAT MORE STEPS IN THIS DIRECTION WILL BE TAKEN AS SOON AS GOE DEEMS IT POSSIBLE TO PAY THE SHORT TERM COSTS OF THESE MEASURES.

4. WHILE SADAT HIMSELF PROBABLY BELIEVES EGYPT SHOULD MOVE TOWARDS A MORE LIBERAL, FREE ENTERPRISE ECONOMY, WE BELIEVE THAT HE IS ALSO REACTING TO PRESSURE FROM SAUDI ARABIA TO ALIGN THE EGYPTIAN ECONOMY MORE CLOSELY TO THE WEST. IN THE HOPE OF WEANING EGYPT AWAY FROM ARAB RADICALS SUCH AS LIBYA, SYRIA AND IRAQ, FAISAL HAS BEEN INCREASING HIS ECONOMIC SUPPORT FOR EGYPT. SADAT HAS RESPONDED TO SAUDI INITIATIVE NOT ONLY TO GAIN SAUDI ECONOMIC BENEFITS BUT ALSO TO INCREASE HIS INFLUENCE WITH SAUDI ARABIA THROUGH CLOSER AND MORE FREQUENT CONSULTATIONS. WE BELIEVE IT IS IN UNITED STATES INTERESTS TO ENCOURAGE THE STRENGTHENING OF TIES BETWEEN FAISAL AND SADAT SINCE FAISAL IS BOTH MORE TIED TO THE UNITED STATES IN MUTUAL ECONOMIC INTERESTS THAN ARE SADAT'S ALTERNATIVE ARAB ALLIES.

5. WE THEREFORE RECOMMEND THAT USG PROVIDE ONE AND ONE-HALF MILLION TONS OF WHEAT TO EGYPT FOR DELIVERY THIS AUTUMN ON CCC 3-YEAR CREDIT TERMS, ON CONDITION THAT THE SAUDI ARABIAN GOVERNMENT GUARANTEE REPAYMENT.

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6. FOR THE UNITED STATES, THIS ARRANGEMENT WOULD SERVE OUR POLITICAL PURPOSES IN REINFORCING THE LINKS BETWEEN SAUDI ARABIA AND EGYPT AND WOULD ALSO BE A POSITIVE STEP IN IMPROVING OUR OWN RELATIONS WITH THE GOE. WITH A SAUDI GUARANTEE OF THE CCC CREDITS THERE WOULD BE LITTLE FINANCIAL RISK. THIS PROPOSAL WOULD REQUIRE THAT WE MAKE A MILLION AND ONE-HALF TONS OF

WHEAT AVAILABLE TO EGYPT AT A TIME WHEN THERE ARE ALTERNATIVE DEMANDS ON OUR WHEAT SUPPLIES, BUT THE POLITICAL BENEFITS IN IMPROVING OUR RELATIONS WITH EGYPT AND CONSOLIDATING EGYPT'S RELATIONS WITH SAUDI ARABIA SHOULD BE WELL WORTH THAT PRICE. SUCH AN ARRANGEMENT, BY DRAWING SADAT TOWARDS SAUDI ARABIA AND THE UNITED STATES, WOULD REDUCE THE LIKELIHOOD OF HIS INITIATING HOSTILITIES AGAINST ISRAEL. IT WOULD ALSO MAKE IT MORE DIFFICULT FOR SADAT TO APPLY ANY REAL PRESSURE ON U.S. OIL INTERESTS AND, IN FACT, WOULD PROBABLY HAVE THE OPPOSITE EFFECT OF ENABLING FAISAL TO USE SADAT AS A MODERATING INFLUENCE WITH THE MORE RADICAL ARAB STATES.

7. WE WOULD APPRECIATE EMBASSY JIDDA'S ASSESSMENT OF SAUDI REACTION TO THIS PROPOSAL. FROM THE INFORMATION WE HAVE RECEIVED CONCERNING FAISAL'S WILLINGNESS TO PROVIDE ECONOMIC SUPPORT TO EGYPT, IT WOULD SEEM TO US THAT THE SAUDIS MIGHT BE PLEASED WITH SUCH AN ARRANGEMENT. IN ANY CASE THE SAUDIS WILL PROBABLY END UP FINANCING EGYPTIAN WHEAT PURCHASES THIS COMING YEAR WHETHER THE WHEAT COMES FROM THE US OR OTHER SOURCES. IF THE ARRANGEMENT ALSO STRENGTHENS US-EGYPTIAN RELATIONS, THE SAUDIS WOULD PROBABLY CONSIDER THIS TO BE AN ADDITIONAL POLITICAL DIVIDEND FOR THEIR INVESTMENT.
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